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1. CORPORATE SOCIAL RESPONSIBILITY

1.1. Introduction

Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business/ Responsible Business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. In some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law." CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders.

Corporate Social Responsibility (CSR) refers to transparent business practices that are based on ethical values, and respect for people, communities, and the environment. While there is no universally accepted definition of the term, United Nations Industrial Development Organisation (UNIDO) defines CSR as a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly construed.

Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. McWilliams and Siegel's article (2000) published in Strategic Management Journal, cited by over 1000 academics, compared existing econometric studies of the relationship between social and financial performance. They concluded that the contradictory results of previous studies reporting positive, negative, and neutral financial impact were due to flawed empirical analysis. McWilliams and Siegel demonstrated that when the model is properly specified; that is, when you control for investment in Research and Development, an important determinant of financial performance, CSR has a neutral impact on financial outcomes.

The basic question which CSR answers is the ways in which companies can contribute towards a better society through good business practices. CSR is about how companies make profit in a sustainable environment rather than how they spend it. As more and more companies are realizing the relevance of moral practices in their businesses, CSR is adding new dimensions to its definition by adapting to different cultures, communities and countries.

At the time when resources are becoming scarce and population is increasing the major challenge being faced by people, governments and businesses is to find more sustainable forms of growth possible. For this purpose CSR can also be looked at as a catalyst for development of risk and compliance management. It acts not only as the repair system of corporate economy but also as a systematic change of market economy. What is required is stronger integrated perspective based on the system of moral values which are closely related to the company's core strategy. It takes

appropriate organised structures and also employees with utmost integrity to truly realize CSR. Therefore it becomes a matter of individual and institutional ethics.
CSR if treated as an integral part of the company's core business could enhance the competitiveness of business, increase efficiency of human resources, improve brand image and reputation, strengthen customer loyalty and maximise value of wealth creation to the society.

Some argue that CSR is merely window dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations. Political sociologists became interested in CSR in the context of theories of globalization, neo-liberalism, and late capitalism. Adopting a critical approach, sociologists emphasize CSR as a form of capitalist legitimacy and in particular point out that what has begun as a social movement against uninhibited corporate power has been co-opted by and transformed by corporations into a 'business model' and a 'risk management' device, often with questionable results

CSR is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities. Approaches

1.2. CSR Approaches

Some commentators have identified a difference between the Canadian (Montreal school of CSR), the Continental European and the Anglo-Saxon approaches to CSR. And even within Europe the discussion about CSR is very heterogeneous.

CSR is emerging as an inevitable priority for all the companies in the world. Many countries are using different approaches to strategize CSR depending on their corporate and business environment. CSR covers five main areas: environment, community, employee welfare, financial performance and corporate governance. We are going to understand three very common CSR approaches used all over the world.

Philanthropic Approach

A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to local and non-local nonprofit organizations and communities, including donations in areas such as the arts, education, housing, health, social welfare, and the environment, among others, but excluding political contributions and commercial sponsorship of events. Some organizations do not like a philanthropy-based approach as it might not help build on the skills of local populations, whereas community-based development generally leads to more sustainable development.

This approach is being followed by several organisations since many decades. It is a practice of a company's contribution towards a cause which provides a direct benefit for the cause and also supports the company's core business objectives. A well-designed strategic philanthropy program integrates the needs of both the business and the charitable cause, creating a win-win situation for everyone. This is one of the fastest way to form an alliance and increase engagement among the stakeholders. In spite of the introduction of new methods in CSR, philanthropic approach still remains a common and preferred option worldwide.

Community Approach

Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. For instance, procurement of Fair Trade tea and coffee has been adopted by various businesses including KPMG. Its CSR manager commented, "Fair trade fits very strongly into our commitment to our communities."

This is the most widespread perception of CSR which includes supporting organizations, programs and events in local communities which can have long-term positive impacts. The classical view of CSR was narrowly limited to philanthropy which is now shifting its emphasis on business-society relations, particularly referring to the contribution of the firm solving the social and environmental issues. It is very essential for the organisation to consider the significance of the community in which it is thriving. This concept is adopted by organizations considering the interests of society by taking responsibility of the impact of their activities on communities including customers, suppliers, employees, shareholders and environment.

Creating Shared Value Approach

Another approach is garnering increasing corporate responsibility interest. This is called Creating Shared Value or CSV The shared value model is based on the idea that corporate success and social welfare are interdependent.

It is a strategy for developing the future market while strengthening economies, the marketplace and communities. It creates an interdependence of long-term business success on balanced social systems. It encourages organisations to strategically invest in environment conservation, social welfare, education and healthcare creating opportunities for overall long-term growth.

A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy. CSV received global attention in the Harvard Business Review article Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School; and Mark R. Kramer, Senior Fellow at the Kennedy School at Harvard University and co-founder of FSG Social Impact Advisors. The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy. CSV has a limitation in that it gives the impression that only two stakeholders are important - shareholders and consumers — and belies the multi-stakeholder approach of most CSR advocates.

Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review performed, a comparison can be drawn and a strategy developed for competition with CSR initiatives.

Cost Benefit Analysis with a Resource Based View

In competitive markets the cost-benefit analysis regarding positive financial outcomes upon implementing a CSR-based strategy, can be examined with a lens of the resource-based-view (RBV) of sustainable competitive advantage. According to Barney‘s (1990) "formulation of the RBV, sustainable competitive advantage requires that resources be valuable (V), rare (R), inimitable (I) and non-substitutable (S)." A firm can conduct a cost benefit analysis through a RBV-based lens to determine the optimal and appropriate level of investment in CSR, as it would with any other investments. A firm introducing a CSR-based strategy might only sustain high returns on their investment if their CSR-based strategy were inimitable (I) by their competitors. In competitive markets, a firm introducing a CSR-based strategy might only sustain high returns on their investment and there may only be a short-lived strategic competitive advantage to implementing CSR as their competitors may adopt similar strategies. There is however, a long-term advantage in that competitors may also imitate CSR-based strategies in a socially responsible way. Even if a firm chooses CSR for strategic financial gain, the firm is also acting responsibly Attention to CSR as an element in corporate strategy led to examining CSR activities through the lens of the resource-based-view (RBV) of the firm. The RBV, as introduced by Werner felt (1984) and refined by Barney (1991), presumes that firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms. Accordingly, the imperfect mobility of heterogeneous resources can result in competitive advantages for firms that have superior resources or capabilities. McWilliams and Siegel (2001) used a model based on RBV to address optimal investment in CSR. In their model, CSR activities and attributes may be used in a differentiation strategy. They conclude that managers can determine the appropriate level of investment in CSR by conducting cost benefit analysis in the same way that they analyze other investments. Applying the RBV to CSR naturally leads to the question of whether firms can use CSR to achieve a sustainable competitive advantage. Reinhardt (1998) addressed this issue and found that a firm engaging in a CSR-based strategy could only sustain an abnormal return if it could prevent competitors from imitating its strategy.

Incidents like the 2013 several building collapse with more than 1,100 victims have led to a shift from company-individual thinking towards supply-chain thinking in order to increase social responsibility. Thus, best practices from supply chain management are increasingly applied to the CSR context. Wieland and Hand field (2013) suggest that companies need to audit products and suppliers and that supplier auditing needs to go beyond direct relationships with first tier suppliers. They also demonstrate that visibility needs to be improved if supply cannot be directly controlled and that semi-environmental effects of a company's economic actions to particular interest groups within society and to society at large, is thus an important element of CSR.

Social accounting emphasizes the notion of corporate accountability. D. Crowther defines social accounting in this sense as "an approach to reporting a firm‘s activities which stresses the need for the identification of socially relevant behavior, the determination of those to whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques." An example of social accounting, to a limited extent, is found in an annual Director's Report, under the requirements of UK company law.

A number of reporting guidelines or standards have been developed to serve as frameworks for social accounting, auditing and reporting including:

- ✓ Account Ability's AA1000 standard, based on John Ellington's triple bottom line (3BL) reporting
- ✓ The Prince's Accounting for Sustainability Project's Connected Reporting Framework
- ✓ The Fair Labor Association conducts audits based on its Workplace Code of Conduct and posts audit results on the FLA website.
- ✓ The Fair Wear Foundation takes a unique approach to verifying labour conditions in companies' supply chains, using interdisciplinary auditing teams.
- ✓ Global Reporting Initiative's Sustainability Reporting Guidelines
- ✓ Economy for the Common Good's Common Good Balance Sheet
- ✓ Good Corporation's Standard developed in association with the Institute of Business Ethics
- ✓ Synergy Codethic 26000 Social Responsibility and Sustainability Commitment Management System (SRSCMS) Requirements — Ethical Business Best Practices of Organizations - the necessary management system elements to obtain a certifiable ethical commitment management system. The standard scheme has been build around ISO 26000 and UNCTAD Guidance on Good Practices in Corporate Governance. The standard is applicable by any type of organization.
- ✓ Earth check www.earthcheck.org Certification / Standard
- ✓ Social Accountability International's SA8000 standard
- ✓ Standard Ethics Aei guidelines
- ✓ The ISO 14000 environmental management standard
- ✓ The United Nations Global Compact requires companies to communicate on their progress (or to produce a Communication on Progress, COP), and to describe the company's implementation of the Compact's ten universal principles. This information should be fully integrated in the participant's main medium of stakeholder communications, for example a corporate responsibility or sustainability report and/or an integrated financial and sustainability report. If a company does not publish formal reports, a COP can be created as a stand-alone document.

- ✓ The United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) provides voluntary technical guidance on eco-efficiency indicators, corporate responsibility reporting, and corporate governance disclosure.

The FTSE Group publishes the FTSE4Good Index, an evaluation of CSR performance of companies.

In some nations, legal requirements for social accounting, auditing and reporting exist (e.g. in the French bilan social), though international or national agreement on meaningful measurements of social and environmental performance is difficult.

1.3. Codes and Standards on CSR

- ✓ Universal Declaration of Human Rights - Adopted by United Nations, this declaration paved way for many international human rights standards for all sectors entities.
- ✓ UN Global Compact - An international multi-constituent, voluntary initiative based on internationally accepted ten principles in pursuit of a more sustainable inclusive global economy. The ten principles covers human rights forced labor, child labor, environmental challenges and responsibility, non discrimination, freedom of associations, collective bargaining, corruption, etc.
- ✓ Global Reporting Initiative (GRI) - Since its founding in 1997, the GRI has been addressing the need for standardized approaches to corporate sustainability reporting. In 2006, GRI published Version 3.0 (G3) of its Sustainability Reporting Guidelines emphasizing performance indicators, which contain a separate section titled "Human Rights" with nine performance indicators.
- ✓ Organization for Economic Co-operation and Development (OECD) - OECD guidelines contains recommendations on core labor, environmental standards, human rights, competition, taxation, science and technology combating corruption and safe guarding, consumer rights.
- ✓ Social Accountability 8000 -'SA 8000' standard for social accountability, created in 2000 by the Council on Economic Priorities Accreditation Agency (CEPAA). SA8000 developed by an international coalition of businesses, trade unions and non-governmental organizations (NGOs) on the basis of International Labor Organization (ILO) conventions - the Universal Declaration of Human Rights and the UN convention on the Rights of the Child. The SA8000 code of practice is broken down into nine key areas child labor, management systems, working hours, compensation, disciplinary practices, forced labor, health & safety, freedom of association & collective bargaining and discrimination.
- ✓ Principles for Responsible Investment (PRI) - A set of global best practice principles for responsible investment. It provides a framework for achieving better long term investment returns and more sustainable markets.
- ✓ Equator Principle - Equator principle is a set of environmental and social benchmarks for managing environmental and social issues in development project finance globally. They were developed by private sector banks- led by Citigroup, ABN AMRO, Barclays and WestLB and were launched in June 2003.
- ✓ Role of International Labor Organization (ILO) - ILO seeks the promotion of social justice and internationally recognized human and labor rights. It formulates international labor standards in the form of conventions and recommendations setting minimum standards of basic labor rights.
- ✓ International Organization for Standardization (ISO) 26000 - ISO an International Standard setting body is developing a new standard on Social Responsibility namely ISO 26000 to be published in Nov., 2009. ISO 26000 is intended for use by all types of organizations and in all countries and to assist organization to operate in a socially responsible manner.
- ✓ Occupational Health & Safety Advisory Services (OHSAS) Standard - OHSAS 18001 is applicable to any organization which aims to establish a health and safety management system at work.